

## Sør Boligkreditt AS

(Please note: Sør Boligkreditt has not obtained a public rating, hence the covered bonds are rated by SEB)

WEDNESDAY  
17 JUNE 2011

### Credit view

Sør Boligkreditt (“the Issuer”) is a wholly owned subsidiary of Sparebanken Sør (“the Parent”). Established in 2008, the Issuer functions as the Parent’s vehicle for the issuing of covered bonds and thus the company plays a key role in securing the Parent’s long term funding. The Issuer’s covered bond program is rated AAA by SEB, which reflects the credit strength of the issuer, the quality of the cover pool and the supportive legal framework under which the bonds are issued.

### Credit strength of the issuer

Sør Boligkreditt’s covered bonds retrieves support from the credit strength of the Issuer which further benefits from support from Sparebanken Sør. The link between the Issuer and the Parent is considered strong and evidenced by an established credit facility set up for the benefit of the Issuer. Further, the range of services that the Parent performs on behalf of the Issuer and the fact that any default of the Issuer is considered to have large adverse implications on the reputation of the Parent underlines the link. The strong link between the Issuer and the Parent means that the Issuer rating in the TPI framework, is the senior unsecured rating of the Parent.

### Quality of the collateral

As per the end of Q1 2011, the cover pool which comprises of residential mortgages in Norway was valued at NOK 5.7bn, while the outstanding covered bonds amounted to NOK 4.0bn implying a strong OC level of 41.4%, which is higher than the internal target of 8%. The loan portfolio is considered concentrated as the top 3 counties account for 82% of the pool (mainly Agder counties). The WA indexed LTV is moderate at 52%, and 43% of the loan volume has a LTV of 60% or higher. Further, 49% of the loan volume is interest only loans, while loans in arrears (>90days) constitute 0% of the pool.

### Market risks

Refinancing risk is generally low due to the issuers’ ability to reset the loan rates on the floating rate loans by six week’s notice to the debtors and further because 100% of the Issuer’s loans have floating rates. Further, market risk is limited as the covered bonds match the currency and interest rate exposure of the asset portfolio. However, if future mismatches should arise, the Issuer is expected to hedge the currency and interest rate risk by entering swap agreements with solid counterparties. Nevertheless, the WA duration of the assets is also markedly longer than the duration of the covered bonds, hence some refinancing persists.

### ANALYST

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### CAPITAL MARKETS, OSLO

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### Official ratings:

Covered Bond:  
Moody’s: AAA  
S&P: na  
Fitch: na

Issuer:  
Moody’s: na  
S&P: na  
Fitch: na

Group/ Parent:  
Moody’s: A3  
S&P: na  
Fitch: na

### SEB ratings:

CB: AAA  
Group/parent: A-

### Sector:

Covered bonds

### Management:

CEO: Rolf Søraker

### Address:

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### CREDIT STRENGTHS

- Credit strength of the Issuer, supported by the Parent
- Quality of the cover pool
- Strong link between the Issuer and the Parent

### CREDIT CONCERNS

- Moderate LTV, high share of LTV >60%
- See separate chapter on common risks for covered bond issuers in Norway

## Timely payment indicator

SEB has assigned a TPI of "High" to the Issuer's covered bonds, mainly reflecting the quality of the cover pool, the legislative framework and the refinancing risk. The TPI leeway is 1 notch.

## Financials and cover pool details

Profit & Loss (NOK million)			Cover pool details as of 31.03.11		
	2008	2009	2010		
Interest income		97	217	Mortgages (NOK million)	5 657
Interest expenses		66	169	Substitution assets (NOK million)	0
<b>Net interest income</b>	<b>0</b>	<b>31</b>	<b>48</b>	Total Cover pool (NOK million)	5 657
Other income		2	-4	Covered bonds	4 000
<b>Total income</b>	<b>0</b>	<b>33</b>	<b>43</b>	OC	41.4 %
SG&A		9	18	Number of mortgages	na
Other operating expenses				Average loan balance (NOK million)	na
<b>Total operating expenses</b>	<b>0</b>	<b>9</b>	<b>18</b>	WA LTV indexed	52 %
<b>Income bef. taxes &amp; provisions</b>	<b>0</b>	<b>24</b>	<b>25</b>	WA seasoning (months)	217
Loan loss provisions		4	0	WA remaining term (months)	64
Other expenses				<b>Top 3 counties</b>	<b>%</b>
<b>Pre-tax profit</b>	<b>0</b>	<b>20</b>	<b>25</b>	Aust-Agder	44 %
Taxes		6	7	Vest-Agder	31 %
<b>Net income</b>	<b>0</b>	<b>15</b>	<b>18</b>	Oslo	6 %
				<b>Total</b>	<b>82 %</b>

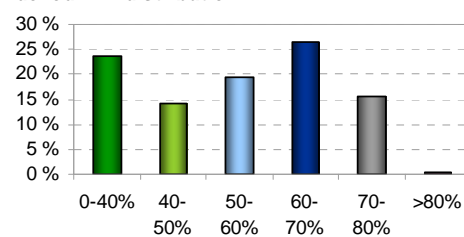
Balance Sheet (NOK million)			
	2008	2009	2010
Lending/ deposits credit institutions		174	0
Lending to customers		5 341	5 856
Lending to public institutions			
Financial derivatives			
Other assets		9	9
<b>Total assets</b>	<b>0</b>	<b>5 523</b>	<b>5 865</b>

Loans/ deposits credit institutions		1 271	1 574
Financial derivatives		1	5
Debt securities issued		4 000	4 000
Subordinated loan capital			
Other liabilities		37	54
<b>Total liabilities</b>	<b>0</b>	<b>5 309</b>	<b>5 632</b>
Share capital		200	200
Other equity		15	33
Reserves & retained earnings			
<b>Total equity</b>	<b>0</b>	<b>215</b>	<b>233</b>

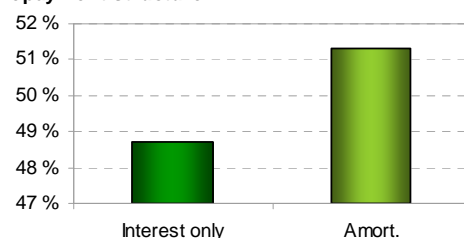
<b>Total liabilities &amp; equity</b>	<b>0</b>	<b>5 523</b>	<b>5 865</b>
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Key Figures			
	2008	2009	2010
RWA		2 099	2 247
Tier 1 capital		213	231
Total capital		213	231
Tier 1 capital ratio		10.1 %	10.3 %
Total capital ratio		10.1 %	10.3 %

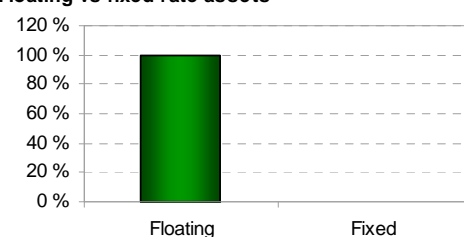
### Indexed LTV distribution



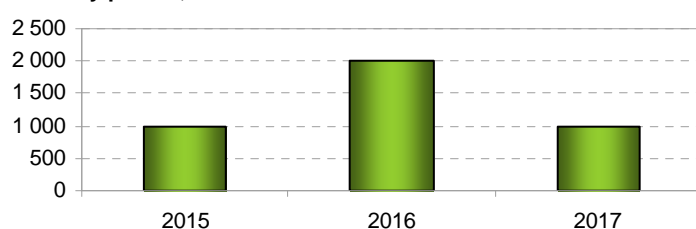
### Repayment structure



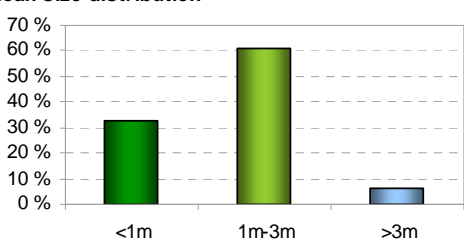
### Floating vs fixed rate assets



### Maturity profile, NOK million



### Loan size distribution



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